

Message Text

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PAGE 01 STATE 182554

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E.O. 11652: GDS

TAGS: EAID, EFIN, CB

SUBJ: ESF AND OTHER ECONOMIC POLICY MATTERS - DISCUSSIONS
WITH IMF

REFS: A. STATE 172226 B. PHNOM PENH 9028
C. PHNOM PENH 9043 D. PHNOM PENH 9707

1. AID DESK OFFICERS MET SEPT. 11 WITH CHABRIER AND JOHNSON, IMF, AND EXCHANGED VIEWS ON NEW IMF REPORT, EXCHANGE RATE MOVEMENTS, ANTICIPATED MONETARY EXPANSION, EXCHANGE SUPPORT FUND (INCLUDING PLANS FOR NEXT YEAR'S ESF), AND CURRENT AND NEAR-TERM U.S. ECONOMIC AID ACTIVITIES IN KHMER REPUBLIC.

2. IMF REPORT: PART ONE RECENT FUND MISSION REPORT AND ITS PROPOSED DECISION FOR 1973 ARTICLE XIV CONSULTATION WAS RELEASED TO FUND'S EXECUTIVE DIRECTORS ON SEPT. 6 (COPIES POUCHED TO YOU). PART TWO OF REPORT, NOT YET AVAILABLE, CONTAINS STATISTICS. REPORT (A) DESCRIBES RECENT ECONOMIC SITUATION; (B) CONTAINS STAFF APPRAISAL WHICH INTER ALIA WELCOMES ELIMINATION OF TEMPORARY RESTRICTIONS IMPOSED ON
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PAGE 02 STATE 182554

SOME IMPORTS IN FIRST HALF OF 1973 AND CONCLUDES THAT EX-

CHANGE AND TRADE SYSTEMS SHOULD CONTINUE TO BE OPERATED ALONG PRESENT LINES; AND (C) PROPOSES DRAFT DECISION FOR FUND EXECUTIVE BOARD CONSIDERATION ON 1973 ARTICLE XIV CONSULTATION. LATTER DECISION IN SUMMARY WELCOMES RECENT INCREASES IN PRODUCER PRICES; CALLS FOR BOLD EFFORTS TO CUT EXPENDITURES DRASTICALLY, IMPROVE TAX COLLECTIONS, RAISE REVENUES FROM NEW SOURCES, AND IMPOSE TIGHTER CREDIT POLICY; WELCOMES EFFORTS TO INCREASE EXPORTS AND TO REDUCE INVISIBLE EXPENDITURES ABROAD; ENCOURAGES AUTHORITIES TO CONTINUE TO ADJUST EXCHANGE RATE OF RIEL IN LIGHT OF DEMAND PRESSURES, DOMESTIC PRICES, AND FINANCIAL DEVELOPMENTS.

3. EXCHANGE RATE MOVEMENT: REPORT STATES QUOTE THE STAFF WELCOMES CHANGE IN EXCHANGE RATE TO KR 250 PER U.D. DOLLAR EFFECTED ON AUGUST 27. HOWEVER, A CONTINUING REVIEW OF APPROPRIATENESS OF EXCHANGE RATE IN LIGHT OF DOMESTIC PRICE AND FINANCIAL DEVELOPMENTS IS ESSENTIAL. ADJUSTMENTS IN RATE SHOULD CONTINUE REFLECT CURRENT AND PROSPECTIVE DEMAND PRESSURES IN FOREIGN EXCHANGE MARKET AS WELL AS IMPORTANCE OF MAXIMIZING THE GENERATION OF COUNTERPART FUNDS END QUOTE. FROM OUR CONVERSATION IT WAS EVIDENT THAT NEITHER CHABRIER NOR JOHNSON WAS HAPPY WITH TIMING AND MAGNITUDE OF AUGUST 27 RATE CHANGE. HOWEVER, BOTH STRONGLY BELIEVE THAT IT WOULD BE INAPPROPRIATE FOR IMF TO GIVE RES REP SPECIFIC INSTRUCTIONS ON MAGNITUDE AND TIMING OF EXCHANGE RATE CHANGES.

4. MONETARY EXPANSION: DISCUSSION ON THIS SUBJECT WAS CURSORY. FUND HAS NOT YET FOCUSSED ON THIS SUBJECT IN DEPTH, BUT JOHNSON PREPARING TENTATIVE MONETARY RACK-UP FOR USE IN NEW FUND VISIT TO PHNOM PENH MENTIONED PARA 5 BELOW. WE WILL REVIEW THIS WITH HIM AND WILL MAKE YOUR ESTIMATES AVAILABLE TO HIM. IMF TEAM CONTINUES TO BE INCLINED TOWARDS SUBSTANTIALLY LARGER MONETARY EXPANSION ESTIMATES (60 PERCENT FOR CY 73) THAN EMBASSY.

5. EXCHANGE SUPPORT FUND: FUND STILL ENVISAGES GKR HOLDING DONOR MEETING FOR NEXT YEAR'S ESF IN PARIS IMMEDIATELY FOLLOWING NEW DEBT RESCHEDULING MEETING IN EARLY NOVEMBER. FUND HAS ALREADY APPROVED NEW STAFF MISSION GOING TO PHNOM
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PAGE 03 STATE 182554

PENH APPROXIMATELY OCT. 10 TO DEVELOP MATERIAL FOR MEETING; RETURNING TO U.S. ON OCT. 24 TO PREPARE WRITTEN REPORT. MISSION WOULD INCLUDE CHABRIER, JOHNSON, AND HOWARD HANDY, NEW CAMBODIA DESK OFFICER WHO WILL BE REPLACING PIERRE DE RAET (WHO RECENTLY RESIGNED FROM IMF AND WENT BACK TO BELGIUM TO BE A BANKER AGAIN). WE MENTIONED OUR INTENTION, IF DONOR MEETING HELD ON ABOVE SCHEDULE, TO HAVE OLMSTED COME TO U.S. PRIOR TO MEETING (PRESUMABLY AS SOON AS FUND

MISSION DEPARTED PHNOM PENH), AND THAT HE, NOOTER, AND KAMENS NOW INTENDED TAKE PART IN PARIS MEETING.

6. CHABRIER SAID FUND DID NOT HAE SPECIFIC ESF AMOUNT IN MIND YET AND COULD NOT SHED ANY LIGHT ON DOL 40 MILLION FIGURE MENTIONED BY EVERS. HE PROMISED TO LOOK INTO RATIONALE FOR PROPOSED CARRYOVER COMPOSED OF ADDITIONAL DOLS 5 MILLION CONTRIBUTION IN NEXT FEW WEEKS AND WE PROMISED TO GIVE HIM EXCERPTS FROM YOUR RECENT CABLE THIS SUBJECT AS WELL AS CABLE ON GKR BALANCE OF PAYMENTS (REFS B AND C). WE AGREED TO MEET WITH FUND STAFF AGAIN THIS SUBJECT.

7. RE PROSPECTS FOR ESF DONORS NEXT YEAR; CHABRIER SHARED OUR CONCERN RE CONTINUED PARTICIPATION OF AUSTRALIANS AND BRITISH, DID NOT SHARE SOK CHHONG'S APPARENT OPTIMISM RE FRENCH CONTRIBUTION. WE TOLD HIM THAT WE WERE AWAITING GKR INITIATIVES SEEKING CONTRIBUTIONS TO NEXT YEAR'S FUND BEFORE USG MADE REPRESENTATIONS THROUGH OUR EMBASSIES.

8. REF D JUST RECEIVED. WILL BE ANSWERED BY SEPTTEL. RUSH

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